



KAI !GARIB LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Municipal Council Members	
Mayor	Cllr. J.J.J. Olyn
Speaker	Cllr. S. Jacob
Party members	Cllr. T. Solomons Cllr. M.M.J. Titus Cllr. A. De Bruin Cllr. A.M. van Wyk Cllr. E. Meyer Cllr. A. van der Westhuizen
Ward Councillors	Cllr. W.D. Klim Cllr. A.C. Snyers Cllr. B.M. Bock Cllr. A.M. Isaacs Cllr. A.V. du Plessis Cllr. F.J. Handona Cllr. W.B. Kampfer Cllr. D.W. Fienies Cllr. J.G. Styles
Council Committees	
1. Financial Management Committee	
Chairperson:	Cllr. J.J.J. Olyn
Committee members:	Cllr. F. Handona Cllr. E. Meyer
2. Local Economic Development Committee	
Chairperson:	Cllr. D.W. Fienies
Committee members:	Cllr. M.M.J. Titus Cllr. A.M. van Wyk Cllr. A.M. Isaacs
3. Public Participation and Good Governance Committee	
Chairperson:	Cllr. F. Handona
4. Institutional Development Committee	
Chairperson:	Cllr. A.V. du Plessis
Committee members:	Cllr. B.M. Bock Cllr. T. Solomons Cllr. A. van der Westhuizen
5. Infrastructure Development Committee	
Chairperson:	Cllr. W.D. Klim
Committee members:	Cllr. W.B. Kampfer Cllr. A. De Bruin Cllr. A.C. Snyers Cllr. J.G. Styles

Kai !Garib Local Municipality

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General Information

Grading of local authority	Low capacity municipality
Demarcation code	NC082
Municipal Manager (MM)	Mr. J. Mac Kay
Chief Finance Officer (CFO)	Me. S. Seeku
Registered office	11th Avenue 164 Kakamas 8870
Postal address	Private Bag X 6 Kakamas 8870
Bankers	ABSA Bank Limited Standard Bank Limited
Auditors	Auditor General South Africa
Telephone number	(054) 461 6400
Fax number	(086) 502 8887
Email Address	admin@kaigarib.co.za
Website	www.kaigarib.gov.za

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature::

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Abbreviations

ASB	Accounting Standards Board
D.W.A.F.	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
EPWPIG	Expanded Public Works Programme Incentive Grant
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IDP	Integrated Development Plan
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
NCL	Non current liability
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on pages 5 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2012 and was signed by him:

Mr J. Mac Kay
Acting Municipal Manager (Accounting Officer)
Kai !Garib LM
30 June 2012

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 52,889,938 (2011: deficit R 9,565,306).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The account officer has no interest in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr J. Mac Kay

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the MFMA (Municipal Finance Management Act, No.56 of 2003). The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

The Council

Council members:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
 - councillors, all of whom are independent councillors as defined in the Code.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Officer's Report

Audit committee

The municipality does not consist of a audit committee at present.

Internal audit

The municipality does not consist of a of a internal audit committee. This is not in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality's primary bank accounts are with ABSA Bank Limited and Standard Bank Limited and will continue to bank with them in the new financial year.

9. Auditors

Auditor General South Africa will continue in office for the next financial period.

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Notes	2012	2011 RESTATED
Assets			
Current Assets			
Inventories	8	1,975,915	2,206,951
Other financial assets	6	66,978	66,978
Receivables from exchange transactions		426,815	426,815
VAT receivable	9	-	2,617,913
Consumer debtors	10	10,744,191	24,415,358
Cash and cash equivalents	11	3,792,498	1,365,328
Total Current Assets		17,006,397	31,099,343
Non-Current Assets			
Investment property	3	46,621,532	46,621,532
Property, plant and equipment	4	827,701,251	854,586,079
Intangible assets	5	19,202	7,228
Other financial assets	6	10,337,470	9,868,273
Total Non-Current Assets		884,679,455	911,083,112
Total Assets		901,685,852	942,182,455
Liabilities			
Current Liabilities			
Other financial liabilities	12	214,777	203,168
Finance lease obligation	13	713,237	596,841
Payables from exchange transactions	16	37,403,366	26,377,198
VAT payable		991,639	-
Consumer deposits	17	1,520,741	1,388,506
Unspent conditional grants and receipts	14	5,171,375	1,138,790
Provisions	15	4,501,870	4,890,542
Bank overdraft	11	11,458,837	24,941,307
Total Current Liabilities		61,975,842	59,536,352
Non-Current Liabilities			
Other financial liabilities	12	11,383,727	3,098,817
Finance lease obligation	13	744,046	1,457,283
Retirement benefit obligation	7	11,038,052	8,655,880
Total Non-Current Liabilities		23,165,825	13,211,980
Total Liabilities		85,141,667	72,748,332
Net Assets		816,544,185	869,434,123
Net Assets			
Accumulated surplus		816,544,185	869,434,123

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Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Notes	2012	2011 RESTATED
Revenue			
Property rates	19	11,689,240	9,285,268
Service charges	20	65,339,951	57,423,909
Rental of facilities and equipment	32	175,747	53,331
Income from agency services		877,317	1,211,278
Public contributions and donations		251,613	-
Fines		225,074	184,536
Government grants and subsidies	21	54,467,756	46,454,036
Rental income		22,412	21,240
Other income	23	425,112	347,417
Interest received - investment	28	6,801,594	8,413,745
Total Revenue		140,275,816	123,394,760
Expenditure			
Personnel	25	49,472,393	38,653,848
Remuneration of councillors	26	4,752,130	4,277,400
Administration	27	-	1,700
Depreciation and amortisation	29	37,748,093	37,776,312
Finance costs	30	575,673	394,264
Debt impairment		40,918,930	8,132,863
Repairs and maintenance		4,230,087	3,765,619
Bulk purchases	34	30,895,506	22,932,270
Grants and subsidies paid	33	6,024,831	2,392,557
General Expenses	24	18,548,111	14,633,233
Total Expenditure		193,165,754	132,960,066
Deficit for the year		(52,889,938)	(9,565,306)

Kai !Garib Local Municipality

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	878,999,429	878,999,429
Changes in net assets		
Deficit for the year	(9,565,306)	(9,565,306)
Total changes	(9,565,306)	(9,565,306)
Balance at 01 July 2011	869,434,123	869,434,123
Changes in net assets		
Deficit for the 10 Months	(52,889,938)	(52,889,938)
Total changes	(52,889,938)	(52,889,938)
Balance at 30 June 2012	816,544,185	816,544,185

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Cash Flow Statement

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		593,888,374	315,774,871
Grants		272,469,937	280,122,666
Interest income		6,801,594	8,413,745
		873,159,905	604,311,282
Payments			
Employee costs		(262,223,860)	(294,233,878)
Suppliers		(590,805,981)	(244,542,645)
		(853,029,841)	(538,776,523)
Net cash flows from operating activities	35	20,130,064	65,534,759
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(10,852,468)	(83,840,467)
Purchase of other intangible assets	5	(22,770)	(6,549)
Proceeds from sale of financial assets		(469,197)	299,913
Net cash flows from investing activities		(11,344,435)	(83,547,103)
Cash flows from financing activities			
Repayment of other financial liabilities		8,296,519	(175,457)
Finance lease payments		(1,172,514)	(993,317)
Net cash flows from financing activities		7,124,005	(1,168,774)
Net increase/(decrease) in cash and cash equivalents		15,909,634	(19,181,118)
Cash and cash equivalents at the beginning of the year		(23,575,979)	(4,394,861)
Cash and cash equivalents at the end of the year	11	(7,666,345)	(23,575,979)

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous year.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 102 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions. Non-current provisions are discounted where the effect of discounting is material using actuarial valuations.

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The municipality reassesses the useful lives and residual values of property, plant and equipment, investment property and intangible assets on an annual basis. In reassessing the useful lives and residual values of property, plant and equipment, investment property and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Deferred payment terms

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rates and periods used.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.2 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on cost less estimated residual value, using the straight line method over the useful life of the property, which is estimated at 20-30 years.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

- Property intended for sale in the ordinary course of operations or in the process of construction or development from such sale;
- Property being constructed or developed on behalf of third parties;
- Owner occupied property, including among other things property held for future use as owner occupied property, property held for future developments and subsequent use as owner occupied property, property occupied by employees such as housing personnel (whether or not the employees pay rent at market rates) and owner occupied property awaiting disposal;
- Property that is being constructed for future use as investment property;
- Property that is leased to another entity as investment property;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost, being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.3 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.

Depreciation only commences when the asset is ready for its intended use. Refer to the asset management policy of the municipality for the useful lives used.

Item	Average useful life
Buildings	
• Improvements	25-30
Plant and machinery	
• Specialist plant and equipment	10-15
• Other plant and equipment	2-15
Furniture and fixtures	
• Office equipment	3-15
• Furniture and Fittings	5-15
Motor vehicles	
• Specialist vehicles	10-15
• Other vehicles	5-15
Infrastructure	
• Roads and paving	10-100
• Pedestrian malls	15-30
• Electricity	15-60
• Water	15-100
• Sewerage	15-60
Community	
• Community facilities	25-30
• Recreational facilities	15-30
• Security	15-25
Bins and containers	5-15
Watercraft	15-20

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

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Accounting Policies

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. When an intangible asset is acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Item	Useful life
Computer software, other	2 years

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Capitalised development costs are recorded as intangible assets and recognised from the point at which the asset is ready for use on a straight line basis over its useful life, which is between 3 and 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period. However, such intangible assets are subject to an annual impairment test.

Development assets are tested for impairment annually in accordance with GRAP 102. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.5 Financial instruments (continued)

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans and receivables	Financial asset measured at amortised cost
Held to maturity investments	Financial asset measured at amortised cost
Financial assets at fair value through profit and loss	Financial asset measured at fair value
Available for sale investments	Financial asset measured at fair value
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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Accounting Policies

1.5 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality does not offset a financial asset and a financial liability unless a legal enforcement right to set off the recognised amounts currently exists and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair value and assumptions

The fair value of financial instruments are determined as follows:

- The fair value of quoted investments are based on current bid prices.
- If the market for a financial asset or liability is not active, the municipality establishes fair values by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

Kai !Garib Local Municipality

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Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Financial guarantee contracts

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due. Financial guarantee contract liabilities are initially measured at fair value. The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectability of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Available-for-sale financial assets

Kai !Garib Local Municipality

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Accounting Policies

1.5 Financial instruments (continued)

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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Accounting Policies

1.5 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the statement of financial performance.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.7 Inventories

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Kai !Garib Local Municipality

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Accounting Policies

1.8 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held-for-sale is included in the statement of financial performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held-for-sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined. The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

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Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

Accounting Policies

1.12 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

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Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all medical aid funds, with which the municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Provincially-administered defined benefit plans

The municipality contributes to various national and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined benefit pension plans

The municipality has an obligation to provide post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

Kai !Garib Local Municipality

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Accounting Policies

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Other post retirement obligations

Long-service Allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Provisions for restructuring costs

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

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(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services;
- The expenditures that will be undertaken; and
- When the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provision for environmental rehabilitation of landfill sites

The municipality provides for the rehabilitation of the landfill site based on a provision done by professional assessors.

Contingencies

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the annual financial statements.

Contingencies are disclosed in note 42.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Prepaid electricity

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Accounting Policies

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unspent conditional grants is allocated directly to the creditor: unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

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Accounting Policies

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

Revenue from agency services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.15 Revenue from non-exchange transactions

Non exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, without giving approximately equal value to another entity in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time-proportionate basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Public contributions

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other donations and contributions

Other donations and contributions are generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

1.16 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the statement of financial performance in accordance with the requirements of GRAP 5 and Accounting Standards Board Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use have been completed.

Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

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Accounting Policies

1.20 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Going concern

The annual financial statements have been prepared on the going concern basis.

1.25 Presentation of currency

These annual financial statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.26 Risk management

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

1.27 Comparative information

Where the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

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Accounting Policies

1.28 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.29 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.30 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.31 Budget information

The municipality are subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through authorising legislation, appropriation or similar.

A statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting.

1.32 Government grants and receipts

Government grants and receipts are recognised as revenue when:

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Accounting Policies

1.32 Government grants and receipts (continued)

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance.

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.33 Value added Tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

1.34 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

1.35 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

1.36 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

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Accounting Policies

1.37 Change on accounting policies estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

1.38 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed

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Notes to the Annual Financial Statements

Figures in Rand

2012 2011

2. New standards and interpretations

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, a municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 13: Operating Leases – Incentives

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Kai !Garib Local Municipality

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3. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation on and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation on and accumulated impairment	Carrying value
Investment property	46,621,532	-	46,621,532	46,621,532	-	46,621,532

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	46,621,532	46,621,532

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	46,621,532	46,621,532

Investment properties comprise residential and commercial properties that are rented out, as well as vacant land held for a currently undetermined use.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. Refer also to Appendix B for more detail on investment property.

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	115,627,775	(16,932,913)	98,694,862	115,627,775	(15,062,572)	100,565,203
Infrastructure assets	1,391,489,199	(694,781,159)	696,708,040	1,383,012,633	(663,825,039)	719,187,594
Community assets	32,319,558	(23,715,103)	8,604,455	32,319,558	(22,896,174)	9,423,384
Other property, plant and equipment	36,396,563	(13,083,894)	23,312,669	34,020,660	(8,999,760)	25,020,900
Housing assets	404,546	(23,321)	381,225	404,546	(15,548)	388,998
Total	1,576,237,641	(748,536,390)	827,701,251	1,565,385,172	(710,799,093)	854,586,079

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Buildings	100,565,203	-	(1,870,341)	98,694,862
Infrastructure assets	719,187,594	8,476,565	(30,956,119)	696,708,040
Community assets	9,423,384	-	(818,929)	8,604,455
Other property, plant and equipment	25,020,900	2,375,903	(4,084,134)	23,312,669
Housing assets	388,998	-	(7,773)	381,225
	854,586,079	10,852,468	(37,737,296)	827,701,251

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciatio n	Total
Buildings	102,435,544	-	(1,870,341)	100,565,203
Infrastructure assets	677,779,190	72,163,205	(30,754,801)	719,187,594
Community assets	10,242,313	-	(818,929)	9,423,384
Other property, plant and equipment	17,209,981	11,677,262	(3,866,343)	25,020,900
Housing assets	396,772	-	(7,774)	388,998
	808,063,800	83,840,467	(37,318,188)	854,586,079

Pledged as security

The municipality did not pledge any of its assets as security.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Refer to Appendix B and C for more detail on Propert, Plant and Equipment.

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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5. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	31,299	(12,097)	19,202	8,529	(1,301)	7,228

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	7,228	22,770	(10,796)	19,202

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	1,809	6,549	(1,130)	7,228

Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the intangible assets of the municipality.

Refer to Appendix B for more details on intangible assets.

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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6. Other financial assets

At fair value through surplus or deficit - designated

Oranje Koöperasie Beperk	8,579	8,579
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Held to maturity

Notice deposits	66,978	66,978
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Loans and receivables

Loans and receivables	10,328,891	9,859,694
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Total other financial assets

10,404,448	9,935,251
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Non-current assets

At fair value through surplus or deficit - designated	8,579	8,579
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Loans and receivables	10,328,891	9,859,694
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10,337,470	9,868,273
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Current assets

Held to maturity	66,978	66,978
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10,404,448	9,935,251
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Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

Held to maturity investments past due but not impaired

Held to maturity investments which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 66,978 (2011: R 66,978) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	66,978	66,978
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Fair values of loans and receivables

Loans and receivables	10,328,891	9,859,694
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Kai !Garib Local Municipality

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7. Employee benefit obligations

Defined benefit plan

The GRAP 25 Statement sets out the measurement recognition and disclosure requirements in accounting for postretirement "defined benefit" plans. It is recommended that the Municipality consult with their auditors in determining the appropriate approach for reflecting the results of this valuation in their Financial Statements.

Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In estimating the liability for post-employment health care benefits a number of assumptions are required. GRAP 25 Statement places the responsibility on management to set these assumptions as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(8,655,880)	(8,076,825)
Net actuarial gains or losses not recognised	(2,382,172)	(579,055)
Net liability	(11,038,052)	(8,655,880)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	8,655,880	8,076,825
Net expense recognised in the statement of financial performance	2,382,172	579,055
Closing balance	11,038,052	8,655,880

Net expense recognised in the statement of financial performance

Current service cost	268,285	-
Interest cost	746,818	-
Actuarial (gains) losses	1,757,057	579,055
Expected return on plan assets	(389,988)	-
Total included in employee related costs	2,382,172	579,055

Kai !Garib Local Municipality

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7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.73 %	7.73 %
Health care cost inflation rate	6.92 %	6.92 %
Net effective discount rate	0.76 %	0.76 %

Key demographic assumptions used at the report date:

Average retirement age	63.00
Continuation of membership at retirement:	90.00%
Proportion assumed married at retirement:	95.00%
Proportion of eligible current non-member employees joining the scheme by retirement:	
Mortality during employment:	SA85-90
Mortality post-retirement:	PA90-1 ultimate

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. IAS19/GRAP25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 7.73% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 29 June 2012. This rate does not reflect any adjustment for taxation.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.92% has been assumed. This is 1.75% in excess of expected CPI inflation over the expected term of the liability, namely 5.17%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.76% which derives from (7.73%-6.92%)/1.0692.

The expected inflation assumption of 5.17% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.96%) and those of nominal bonds (7.73%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: (7.73%-0.50%-1.96%)/1.0196.

The next contribution increase was assumed to occur with effect from 1 January 2013.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 75% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Kai !Garib Local Municipality

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Notes to the Annual Financial Statements

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8. Inventories		
Consumables	1,975,915	2,206,951
Carrying value of inventories carried at fair value less costs to sell	1,975,915	2,206,951
In the prior years inventories that related to old stock were written down to net realisable value, due to the nature of items held that have been in stock for numerous years. The cost information is available with a register at the municipality.		
9. VAT receivable		
VAT	-	2,617,913
10. Consumer debtors		
Gross balances		
Rates	18,213,831	11,300,735
Electricity	22,134,900	13,986,168
Water	19,142,424	14,193,220
Sewerage	7,296,057	5,386,998
Refuse	6,865,180	5,458,290
Service debtors	8,204,344	4,283,562
	81,856,736	54,608,973
Less: Allowance for bad debt		
Service debtors	(71,112,545)	(30,193,615)
Net balance		
Rates	18,213,831	11,300,735
Electricity	22,134,900	13,986,168
Water	19,142,424	14,193,220
Sewerage	7,296,057	5,386,998
Refuse	6,865,180	5,458,290
Other	(62,908,201)	(25,910,053)
	10,744,191	24,415,358
Rates		
Current (0 -30 days)	686,507	148,344
31 - 60 days	299,759	178,076
61 - 90 days	286,138	188,891
91 - 120 days	282,309	190,253
121 + days	16,659,118	10,595,171
	18,213,831	11,300,735
Electricity		
Current (0 -30 days)	5,766,345	2,893,650
31 - 60 days	821,374	776,338
61 - 90 days	893,937	572,123
91 - 120 days	773,920	715,905
121 + days	13,879,324	9,028,152
	22,134,900	13,986,168

Kai !Garib Local Municipality

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10. Consumer debtors (continued)

Water

Current (0 -30 days)	1,898,565	1,105,529
31 - 60 days	457,952	453,795
61 - 90 days	508,099	413,358
91 - 120 days	453,381	360,058
121 + days	15,824,427	11,860,480
	19,142,424	14,193,220

Sewerage

Current (0 -30 days)	436,544	494,401
31 - 60 days	194,906	194,037
61 - 90 days	179,999	167,605
91 - 120 days	160,861	150,633
121 + days	6,323,747	4,380,322
	7,296,057	5,386,998

Refuse

Current (0 -30 days)	505,646	264,573
31 - 60 days	158,265	146,757
61 - 90 days	149,873	128,395
91 - 120 days	141,210	119,317
121 + days	5,910,186	4,799,248
	6,865,180	5,458,290

Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

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10. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	6,351,636	4,333,247
31 - 60 days	2,186,819	1,622,531
61 - 90 days	1,652,236	1,414,629
91 + days	1,648,136	1,385,440
121 - 365 days	57,431,703	42,464,246
	69,270,530	51,220,093

Industrial/ commercial

Current (0 -30 days)	106,423	264,195
31 - 60 days	86,036	68,151
61 - 90 days	91,326	59,479
91 + days	80,696	49,356
121 - 365 days	1,725,241	1,347,152
	2,089,722	1,788,333

National and provincial government

Current (0 -30 days)	669,722	510,517
31 - 60 days	389,330	219,840
61 - 90 days	340,426	170,110
91 + days	411,581	272,767
121 - 365 days	9,878,141	6,872,053
	11,689,200	8,045,287

Total

Current (0 -30 days)	7,427,922	5,107,959
31 - 60 days	2,682,573	1,910,523
61 - 90 days	2,078,698	1,644,218
91 + days	2,151,042	1,707,563
121 - 365 days	67,516,501	44,238,710
	81,856,736	54,608,973
Less: Provision for debt impairment	(71,112,545)	(30,193,615)
	10,744,191	24,415,358

Less: Provision for debt impairment

Total provision	(71,112,545)	(30,193,615)
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Reconciliation of allowance for bad debts

Balance at beginning of the year	(30,193,615)	(22,060,752)
Contributions to provision	(40,918,930)	(8,132,863)
	(71,112,545)	(30,193,615)

Kai !Garib Local Municipality

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11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3,197,513	773,399
Short-term deposits	594,985	591,929
Bank overdraft	(11,458,837)	(24,941,307)
	(7,666,339)	(23,575,979)

Current assets	3,792,498	1,365,328
Current liabilities	(11,458,837)	(24,941,307)
	(7,666,339)	(23,575,979)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
Bank Balance						
ABSA Bank Limited - Current account - 4051445435	4,942,365	916,568	723,631	(14,414,626)	(18,437,955)	(437,955)
Short term Investments						
ABSA Bank Limited - Current account - 9117271903	25,615	1,140,690	4,584,563	25,615	1,140,690	4,584,563
Standard Bank Limited - Current account - 048904295004	54,304	52,961	51,604	54,304	52,961	51,604
Stanlib - Current account - 53355021	340,799	346,577	349,629	340,799	346,577	349,629
Fnb - Current account- 62095763788	28,015	27,104	26,133	28,015	27,104	26,133
Fnb - Current account- 62091336901	171,868	165,287	158,494	171,868	165,287	158,494
Total	5,562,966	2,649,187	5,894,054	(13,794,025)	(16,705,336)	4,732,468

Kai !Garib Local Municipality

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12. Other financial liabilities

Held at amortised cost

Development Bank of South Africa	11,598,504	3,301,985
- Loan 61000080(61000080) has an interest rate of 9% compounded and is repayable half yearly		
- Loan 61001016(61001016) has an interest rate of 6.75% compounded and is repayable monthly		
- Loan 61001017(61001017) has an interest rate of 6.75% compounded and is repayable monthly		
- Loan 61001442(61001442) has an interest rate of 16% compounded and is repayable half yearly		
- Loan 61003127(61003127) has an interest rate of 16.5% compounded and is repayable half yearly		
- Loan 61003256(61003256) has an interest rate of 9.15% compounded and is repayable half yearly		

Refer to Appendix A for more detail on long term loans.

Non-current liabilities

At amortised cost	11,383,727	3,098,817
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Current liabilities

At amortised cost	214,777	203,168
	11,598,504	3,301,985

Fair value of the financial liabilities carried at amortised cost

Bank loans	11,383,727	3,098,817
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The carrying amounts of financial liabilities at amortised cost are denominated in the following currencies:

Rand	11,598,504	3,301,985
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Kai !Garib Local Municipality

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13. Finance lease obligation

Minimum lease payments due	2012	2011
- within one year	836,148	802,341
- in second to fifth year inclusive	768,977	1,608,957
	1,605,125	2,411,298
less: future finance charges	(147,842)	(357,174)
Present value of minimum lease payments	1,457,283	2,054,124
Present value of minimum lease payments due		
- within one year	713,237	596,841
- in second to fifth year inclusive	744,046	1,457,283
	1,457,283	2,054,124
Non-current liabilities	744,046	1,457,283
Current liabilities	713,237	596,841
	1,457,283	2,054,124

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

Finance Lease Description

	Lessor
- Hyundai Getz 1.4 (2008 Model)	ABSA Bank limited
- Volkswagen Polo Classic Trendline 1.4 (2007 Model)	ABSA Bank limited
- Volkswagen Sharan 1.8T (2006 Model)	ABSA Bank limited
- Kubota L39 4x4Backhoe loader (2009 Model)	ABSA Bank limited
- Toyota Hilux 2.0 VVTI P/U S/C (2009 Model)	ABSA Bank limited
- Toyota Hilux 2.0 VVTI P/U S/C (2009 Model)	ABSA Bank limited
- Toyota Hilux 2.0 VVTI P/U S/C (2009 Model)	ABSA Bank limited
- Nissan UD 70A F/C C/C (2009 Model)	ABSA Bank limited
- Nissan UD 85A Tip C/C (2009 Model)	ABSA Bank limited
- Nissan UD 85A Tip C/C (2009 Model)	ABSA Bank limited
- Ford Ranger 2.2 LWB P/U S/C (2009 Model)	ABSA Bank limited

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	2,435,765	1,138,790
Sport Development Grant	412,995	-
Housing Grant	2,322,615	-
	5,171,375	1,138,790

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

See note 21 for reconciliation of grants from National/Provincial Government.

Kai !Garib Local Municipality

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15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	4,112,947	-	(502,694)	3,610,253
Long term service award provision	777,595	114,022	-	891,617
	4,890,542	114,022	(502,694)	4,501,870

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	4,569,941	-	(456,994)	4,112,947
Long term service award provision	629,843	147,752	-	777,595
	5,199,784	147,752	(456,994)	4,890,542

Performance bonus accrual

Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

Leave accrual

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

Long service award provision

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive), to employees. Furthermore a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

16. Payables from exchange transactions

Trade payables	9,053,749	1,372,952
Accrual for performance bonus	1,886,766	1,664,281
Accrual for leave pay	3,056,424	3,188,308
Deposits received	118,547	104,097
Sundry Creditors	4,506,568	5,075,339
Other Creditors	(5,170,422)	(5,170,422)
Payments received in advance	23,856,879	20,101,019
Stand sales	94,855	41,624
	37,403,366	26,377,198

17. Consumer deposits

Deposits held from Consumer Debtors	1,520,741	1,388,506
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Kai !Garib Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
18. Revenue		
Property rates	11,689,240	9,285,268
Service charges	65,339,951	57,423,909
Rental of facilities & equipment	175,747	53,331
Income from agency services	877,317	1,211,278
Public contributions and donations	251,613	-
Fines	225,074	184,536
Government grants & subsidies	54,467,756	46,454,036
	133,026,698	114,612,358
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	65,339,951	57,423,909
Rental of facilities & equipment	175,747	53,331
Income from agency services	877,317	1,211,278
	66,393,015	58,688,518
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11,689,240	9,285,268
Public contributions and donations	251,613	-
Fines	225,074	184,536
Transfer revenue		
Levies	54,467,756	46,454,036
	66,633,683	55,923,840

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19. Property rates

Rates received

Residential	24,714,471	23,046,532
Commercial	-	(82)
Industrial	(324)	(664,547)
Less: Income forgone	(13,024,907)	(13,096,635)
	11,689,240	9,285,268

Valuations

Residential	743,876,265	743,876,265
Agriculture	3,267,337,357	3,267,337,357
State	78,213,730	78,213,730
Municipal	34,243,565	34,243,565
Exempted valuations	33,102,037	33,102,037
	4,156,772,954	4,156,772,954

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2008.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

20. Service charges

Sale of electricity	52,763,266	46,057,005
Sale of water	3,420,441	3,123,937
Sewerage and sanitation charges	5,476,402	4,911,507
Refuse removal	3,679,842	3,331,460
	65,339,951	57,423,909

Kai !Garib Local Municipality

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21. Government grants and subsidies		
Equitable share	34,355,968	35,786,826
Municipal systems infrastructure grant	1,200,000	1,200,000
Financial Management Grant	1,450,000	1,200,000
Liabrary Grant	-	410,000
LG Seta	184,430	-
Sport Development Grant	167,005	-
Municipal Infrastructure Grant	15,996,025	7,857,210
Housing Grant	189,393	-
Development Bank of South Africa	924,935	-
	54,467,756	46,454,036
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	1,138,790	-
Current-year receipts	17,293,000	8,996,000
Conditions met - transferred to revenue	(15,996,025)	(7,857,210)
	2,435,765	1,138,790
Conditions still to be met - remain liabilities (see note 14).		
22. Public contributions and donations		
Public contributions and donations	251,613	-
23. Other income		
Admin cost	4,550	2,859
Books	474	1,070
Buildingplan fees	10,790	13,661
Cemetery fees	16,860	16,399
Commision: Policies and other	41,234	44,529
Connection fees	218,591	111,652
Faxes	178	494
Firebrigade fees	4,711	289
Miscellaneous income	54,007	81,785
Other sales	1,437	5,054
Photocopies	7,473	10,264
Posters and banners	14,765	175
Re-connection fees	6,740	48,368
Rezoning applications	26,042	6,927
Surplus cash	535	600
Telephone fees reclaimed	9,248	-
Testing of instalations - Meters	7,477	3,291
	425,112	347,417

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24. General expenses

Advertising	180,574	42,505
Auditors remuneration	2,003,855	325,704
Bank charges	409,460	269,109
Chemicals	1,089,001	1,014,145
Cleaning	39,518	44,255
Community development and training	90,577	449,157
Consulting and professional fees	1,756,002	1,142,280
Cut off	463,511	497,872
Deed Certificate Fees	-	46,273
Donations	29,483	32,939
Entertainment	195,922	100,129
Fair value adjustment to expenses	-	102,043
Fuel and oil	3,721,635	2,802,621
IT expenses	785,023	493,857
Insurance	1,881,261	1,341,125
Lease rentals on operating lease	1,259,833	655,775
Licensing fees	212,021	122,491
Motor vehicle expenses	240,799	1,634,098
Postage and courier	235,460	222,644
Printing and stationery	177,841	271,320
Protective clothing	140,913	98,539
Refuse	226,942	175,082
Security	79,250	178,020
Sewerage and waste disposal	1,316	785
Subscriptions and membership fees	188,826	353,133
Telephone and fax	895,747	886,818
Tourism development	5,557	42,192
Training	76,086	90,618
Travel - local	2,161,698	1,197,704
	18,548,111	14,633,233

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25. Employee related costs

Basic	30,331,568	24,851,968
Bonus	2,360,526	1,960,774
Medical aid contributions	978,983	663,820
UIF	350,374	177,543
Industrial Council Levy	285,807	186,324
SDL	434,147	212,475
Leave pay provision charge	178,301	931,367
Post-employment benefits - Pension Fund Contributions	6,290,495	3,879,863
Travel allowances	424,055	224,362
Overtime	4,631,747	3,065,648
Acting allowances	222,097	285,785
Standby allowances	105,797	64,133
Non-Pensionable allowances	631,301	480,493
Uniforms contributed	19,691	96,572
Allowance: Uniforms	974	1,374
Contr.: Industrial Council	14,185	15,758
	47,260,048	37,098,259

Remuneration of municipal manager

Remuneration	734,822	-
Telephone Allowance	9,600	-
Contributions to UIF	1,497	-
	745,919	-

Remuneration of chief finance officer

Remuneration	497,120	331,436
Transport Allowance	54,000	84,218
Telephone Allowance	-	5,160
Contributions to Pension Fund and medical aid	60,172	-
Contributions to UIF and Industrial Council Levy	1,488	70,095
	612,780	490,909

Remuneration of executive directors: Corporate services

Remuneration	197,907	303,165
Transport Allowance	91,746	137,542
Telephone Allowance	6,400	9,600
Contributions to Pension Fund and medical aid	54,531	82,033
Contributions to UIF and Industrial Council Levy	1,023	-
	351,607	532,340

Remuneration of executive directors: Technical Services

Remuneration	296,860	303,165
Transport Allowance	131,134	137,542
Telephone Allowance	9,600	9,600
Contributions to Pension Fund and medical aid	62,907	82,033
Contributions to Provident Fund	-	-
Contributions to UIF and Industrial Council Levy	1,538	-
	502,039	532,340

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Figures in Rand	2012	2011
26. Remuneration of councillors		
Executive Major	633,828	239,818
Mayoral Committee Members	529,755	207,756
Speaker	505,654	142,579
Councillors	3,082,893	3,687,247
	4,752,130	4,277,400
27. Administrative expenditure		
Administration and management fees - third party	-	1,700
28. Investment revenue		
Interest revenue		
Investments	317,274	492,432
Interest charged on trade and other receivables	6,484,320	7,921,313
	6,801,594	8,413,745
29. Depreciation and amortisation		
Property, plant and equipment	37,737,297	37,775,182
Intangible assets	10,796	1,130
	37,748,093	37,776,312
30. Finance costs		
Finance leases	575,673	394,264
31. Auditors' remuneration		
Fees	2,003,855	325,704
32. Rental of facilities and equipment		
Premises		
Premises	175,747	53,331
33. Grants and subsidies paid		
Other subsidies		
MSIG qualifying expenditure	1,437,620	-
FMG qualifying expenditure	1,748,202	1,258,726
Library grant expenditure	896,485	-
Sport Development grant expenditure	167,005	85,617
Special projects	933,559	685,416
Other	34,392	18,411
MIG administration cost	618,175	128,926
Housing grant expenditure	189,393	215,461
	6,024,831	2,392,557

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34. Bulk purchases			
Electricity	29,893,534	21,739,020	
Water	1,001,972	1,193,250	
	30,895,506	22,932,270	
35. Cash generated from operations			
Deficit	(52,889,938)	(9,565,306)	
Adjustments for:			
Depreciation and amortisation	37,748,093	37,776,312	
Finance costs	575,673	394,264	
Debt impairment	40,918,930	8,132,863	
Movements in retirement benefit assets and liabilities	2,382,172	579,055	
Movements in provisions	(388,672)	(309,242)	
Changes in working capital:			
Inventories	231,036	248,888	
Receivables from exchange transactions	-	(426,815)	
Consumer debtors	(27,247,763)	8,364,694	
Payables from exchange transactions	11,026,161	20,386,738	
VAT	3,609,552	(1,326,216)	
Unspent conditional grants and receipts	4,032,585	1,138,790	
Consumer deposits	132,235	140,734	
	20,130,064	65,534,759	
36. Contingencies			
The municipality has no contingencies as at 30 June 2012 that they are aware off.			
37. Related parties			
Relationships			
Councillors			
A full database of the related parties are available at the municipal manager's office for inspection.			
38. Accounting Officer's emoluments			
Executive			
2012			
	Emolument s	Other benefits*	Total
Mr J. Mackay	734,822	11,097	745,919
39. Prior period errors			
A Register containing prior period errors are held at the municipality.			

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40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

41. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure and or adjusting events.

42. Unauthorised expenditure

Unauthorised expenditure	86,357,851	-
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None of these funds have been deemed to be recoverable.

43. In-kind donations and assistance

The mayor receives a motor vehicle in kind for the utilisation of his duties.

44. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(52,889,938)	(9,565,306)
Adjusted for:		
Impairments recognised / reversed	37,748,093	-
Provision for bad debts	40,918,930	-
Net surplus (deficit) per approved budget	25,777,085	(9,565,306)

45. Additional disclosure in terms of Municipal Finance Management Act

Material losses

A register of distribution losses is kept at the municipality.

Audit fees

Current year subscription / fee	2,003,855	325,704
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VAT

VAT receivable	-	2,617,913
VAT payable	991,639	-
	991,639	2,617,913

VAT output payables and VAT input receivables are shown in note9.

All VAT returns have been submitted by the due date throughout the year.

Kai !Garib Local Municipality

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46. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance								
Property rates	11,122,176	11,122,176	11,122,176	11,689,240		(567,064)	105 %	105 %
Service charges	59,458,741	59,458,741	59,458,741	65,339,951		(5,881,210)	110 %	110 %
Investment revenue	6,052,754	6,052,754	6,052,754	6,801,594		(748,840)	112 %	112 %
Transfers recognised - operational	38,402,649	38,402,649	38,402,649	37,357,403		1,045,246	97 %	97 %
Other own revenue	15,165,738	15,165,738	15,165,738	1,725,662		13,440,076	11 %	11 %
Total revenue (excluding capital transfers and contributions)	130,202,058	130,202,058	130,202,058	122,913,850		7,288,208	94 %	94 %
Employee costs	(42,390,817)	(42,390,817)	(42,390,817)	(49,472,393)	7,081,576	7,081,576	117 %	117 %
Remuneration of councillors	(6,165,588)	(6,165,588)	(6,165,588)	(4,752,130)	-	(1,413,458)	77 %	77 %
Debt impairment	-	-	-	(40,918,930)	40,918,930	40,918,930	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(4,727,860)	(4,727,860)	(4,727,860)	(37,748,093)	33,020,233	33,020,233	798 %	798 %
Finance charges	(3,521,050)	(3,521,050)	(3,521,050)	(575,673)	-	(2,945,377)	16 %	16 %
Materials and bulk purchases	(25,558,394)	(25,558,394)	(25,558,394)	(30,895,506)	5,337,112	5,337,112	121 %	121 %
Transfers and grants	(12,728,267)	(12,728,267)	(12,728,267)	(6,024,831)	-	(6,703,436)	47 %	47 %
Other expenditure	(37,668,555)	(37,668,555)	(37,668,555)	(22,778,198)	-	(14,890,357)	60 %	60 %
Total expenditure	(132,760,531)	(132,760,531)	(132,760,531)	(193,165,754)	86,357,851	60,405,223	145 %	145 %
Surplus/(Deficit)	(2,558,473)	(2,558,473)	(2,558,473)	(70,251,904)		67,693,431	2,746 %	2,746 %

Kai !Garib Local Municipality

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46. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	17,110,353		(17,110,353)	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	58,000	58,000	58,000	251,613		(193,613)	434 %	434 %
Surplus (Deficit) after capital transfers and contributions	(2,500,473)	(2,500,473)	(2,500,473)	(52,889,938)		50,389,465	2,115 %	2,115 %
Surplus/(Deficit) for the year	(2,500,473)	(2,500,473)	(2,500,473)	(52,889,938)		50,389,465	2,115 %	2,115 %